# 1997
# ANNUAL REPORT




bühler

The Internal Management Committee provides each department head and other key personnel with an opportunity to gain familiarity with all of the company's diverse operations and contribute to overall corporate directions.
Shown left to right in the foyer of the company's Administration Centre:
Doug Buhler, B.Comm.(Honors), Manager, Furniture Div.
Min Lee, I.S.M., Manager, Information Technology
Craig Engel, P. Eng., Manager Engineering/Construction
Jean-Guy Fillion, C.G.A., Corporate Controller
Helen Bergen, C.H.R.P., Manager, Human Resources
(seated) John Buhler, President and Managing Director
James H. (Jim) Friesen, C.M.A., Chief Financial Officer
Eric Allison, Manager OEM and Tool Division
Gary Hartridge, B. Comm., Manager, Hardware/Lumber Div.
Larry Schroeder, Vice President, Sales/Marketing
Rick Kneeshaw, C.I.M.,Operations Manager, Morden
Gil Rossong, C.I.M.,Operations Manager, Winnipeg

Front Cover: Snowblowers are among many implements manufactured by Buhler Industries Inc. Sold under both the Farm King and Allied brand names for tractors from 15 to 180 hp, the company leads this equipment category throughout the North American snow belt.

bühler

# Company Profile

Buhler Industries Inc. can trace its origin back to 1933 when the founder of the Company, Mr. Adolf Krushel, began manufacturing farm equipment. Most notably, a high capacity grain grinder that was distributed throughout Western Canada. From these early beginnings, and in particular over the last 26 years since the Company was acquired by John Buhler, the Company has grown to become a significant player in the farm equipment industry.

Today, the Company operates five highly modern manufacturing plants and six distribution centers totaling over 600,000 square feet of facilities and employing more than 600 people. The Company remains strongly committed to its core business as a major manufacturer of a wide range of agricultural equipment, marketed throughout North America under two primary brand names: **"Allied"** and **"Farm King"**. In recent years however, the Company has expanded through diversification into new areas of manufacturing, identifying a few select market niches in custom steel fabrication. The Company's laser division and Bradley Steel division serve as the focal points for expanding the custom steel fabrication service.

The Company also operates furniture and mirror manufacturing divisions producing high quality lines of furniture and mirrors marketed under the brand name **"Buhler".**

# To Our Shareholders

At Buhler Industries we love weather. When the snow flies, snow-blower sales take off. When it rains, there is a lot of activity in grain dryer sales and when the sun shines grain auger sales are buoyant. While many of our products are seasonal, we have products for all seasons and a relatively steady flow of revenue.

We are particularly pleased with the increase in our sales of agriculture related products. We continue to focus on this part of our business as we feel it has the most potential. This years agricultural related product sales increased by 32% to $65.4 million from $49.5 million.

The fourth quarter of this year end marked the 19th consecutive quarter of increased earnings compared with the same quarter in the previous year.

With revenue up 28% we have now completed nine consecutive years of increased revenue and twenty nine consecutive years of reporting profits.

The Globe and Mail Report On Business Magazine July, 1997 issue has rated the top 1,000 Canadian public companies. Buhler Industries ranked number 155 in return on capital and number 168 in return on equity. We ranked number 430 in net earnings. This year's return on capital hit an all time record of 24% and our return on equity remained at 18%.

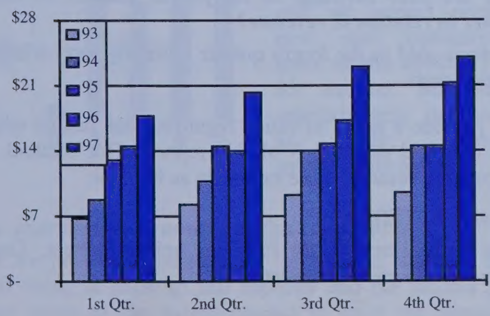
The new corporate office in Winnipeg is now complete and while the noise, bustle and smell of the factory is missed by some, the quiet spaciousness of the new office was welcomed by most of the staff.

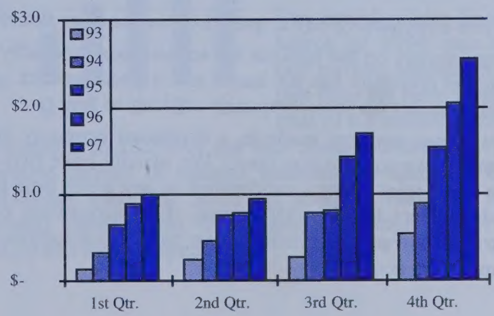
The 64,000 square foot addition to the Morden factory is almost complete and the new paint line is operational.

A sincere thank you to our more than 600 employees, whose names are listed on the back cover, for their part in achieving these truly satisfactory results.

John Buhler, Chairman

December 12, 1997



# Highlights

(in thousands of Canadian Dollars (except per share amounts))

| Year ending September 30th | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | **1997** |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | $18,243 | $20,401 | $22,790 | $23,827 | $33,583 | $48,040 | $56,575 | $66,517 | **$85,375** |
| Gross profit | 5,814 | 6,171 | 6,406 | 6,623 | 8,764 | 12,753 | 16,522 | 21,288 | **27,060** |
| Net income after taxes | 1250 | 1119 | 1245 | 1,178 | 1,142 | 2,421 | 3,703 | 5,133 | **6,131** |
| Return on capital | 11% | 13% | 13% | 9% | 10% | 11% | 18% | 19% | **24%** |
| Return on equity | 12% | 10% | 10% | 8% | 7% | 13% | 16% | 18% | **18%** |
| Earnings per share | 0.06 | 0.05 | 0.06 | 0.06 | 0.06 | 0.12 | 0.18 | 0.22 | **0.26** |
| Shareholders equity | 10,814 | 11,283 | 14,068 | 14,867 | 16,258 | 20,702 | 25,317 | 31,811 | **37,497** |
| Capital expenditures | 1,244 | 746 | 2,364 | 1,952 | 969 | 9,369 | 7,884 | 10,043 | **12,253** |
| Number of employees | 182 | 204 | 228 | 238 . | 315 | 400 | 450 | 525 | **600** |

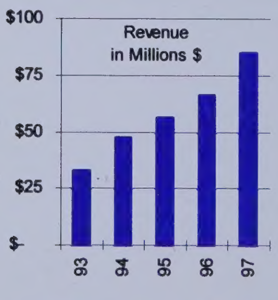
# Management Discussion & Financial Analysis

*in thousands of Canadian dollars (except per share amounts)*

1997 was another successful year for Buhler Industries Inc., with record revenue and earnings.

Rather than deal with financial analysis in the normal manner, we are sharing with you the most frequently asked questions and answers throughout the year. Most of our shareholders are retail investors, employees and farm equipment dealers and we appreciate the interest you have taken in Buhler Industries Inc. We hope you find this information beneficial and if it triggers more questions, do not hesitate to call John Buhler or Darlene Mathieson at (204) 661-8711 or e-mail *jbuhler@buhler.com.*

## Sales and Growth




***Do you expect the present growth trend to continue?***

Some of our sales growth is as a result of acquisitions and since it is difficult to forecast acquisitions we prefer to be conservative with forecasting growth. When we had sales of $25 million per year, a 10% increase meant an additional $2.5 million in sales. Today a 10% increase means we must find $8.5 million in new sales. We believe a 10% sales growth for 1998 is realistic.

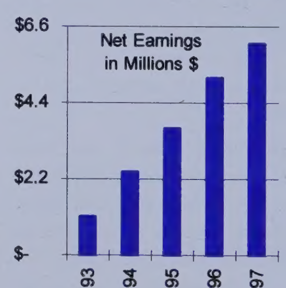
***Are you anticipating any acquisitions in the near future?***

We are always on the lookout for acquisitions especially if the target company has tax losses and a good product. In today's market tax loss companies are hard to find.

Acquisitions are best made in a depressed economy and we may have to bide our time. We usually have two or three companies under consideration at any given time but we do not act hastily. Of course, if an acquisition can contribute towards profitability, we have the resources to complete the acquisition.

## Earnings and profitability

***What will your earnings be next year?***




Our 4th quarter earnings marked the nineteenth consecutive quarter of increase in net earnings compared with the same quarter in the previous year and we are working hard to keep up this momentum. 1997 net earnings totaled $6.1 million representing a 19.4% increase compared with $5.1 million in 1996.

| Operating Results | | Revenue | Net Earnings |
|---|---|---|---|
| 1st Quarter | **1997** | **17,694** | **983** |
| | 1996 | 14,259 | 887 |
| 2nd Quarter | **1997** | **20,479** | **945** |
| | 1996 | 13,830 | 792 |
| 3rd Quarter | **1997** | **23,075** | **1,676** |
| | 1996 | 17,201 | 1,419 |
| 4th Quarter | **1997** | **24,127** | **2,527** |
| | 1996 | 21,227 | 2,035 |

***Why are your earnings in the fourth quarter so much higher in relation to revenue?***

Products sold in the fourth quarter normally carry a higher gross margin.

We provide a range of ratios regarding our results which you can find on page 5 of this report. Our method for calculating some of these ratios are as follows:

***What is EBITDA?***

This is the acronym for Earnings before Interest, Taxes, Depreciation and Amortization.

# Management Discussion & Financial Analysis

*in thousands of Canadian dollars (except per share amounts)*

***How do you calculate return on capital?***

Return on capital is earnings before tax and interest expense divided by the average capital.

***How do you calculate the average capital?***

Capital is the total of short & long term debt including lease obligations (our lease obligations are zero) plus equity.

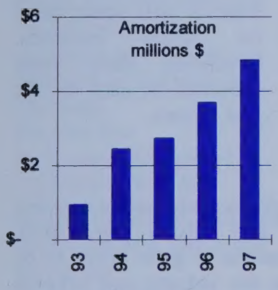
***How do you calculate cash flow?***

Cash flow is the total of net earnings after tax plus amortization.

***What do you mean by cash flow as % of interest bearing debt?***

It is the proportion of total interest bearing debt that is covered by cash generated in one year. This year it is 99% compared to 101% in 1996.

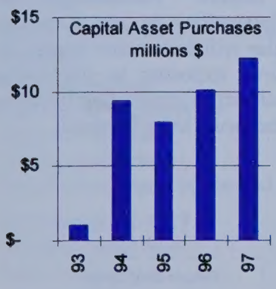
***Why are your amortization costs so high?***




The Company generally depreciates its assets at the same rate allowable by Revenue Canada. $36 million in fixed asset purchases over the last four years has had a significant impact on this expense. If we slow down on capital purchases, this number would decrease rapidly in future years.

## Asset Management

***Do you intend to continue with investment in capital assets at the present rate?***

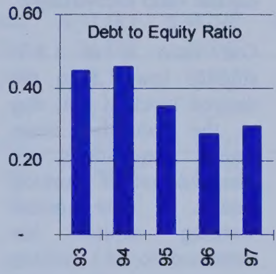



No, much of the old equipment has been replaced with new CNC (Computer Numerically Controlled) machinery and we expect normal new and replacement costs to run about $3 to $5 million per year, approximately the same as our current amortization amounts.

***Are your factories running at full capacity?***

We are presently operating on three shifts, with the day shift being at close to full capacity and the second and third shifts to the extent needed to meet the demand.

***Why do you have such a low debt to equity ratio?***




We have been criticized for not making better utilization of our ability to borrow money at low rates especially since we are generating a 24% return on capital and borrowing costs are under 5%. We feel that too rapid growth could be dangerous as it is difficult to put together a strong management team as quickly as opportunities present themselves. Our long term debt to equity ratio remains at .2:1 and this provides room for additional borrowing to make sound acquisitions with cash as opposed to share exchange.

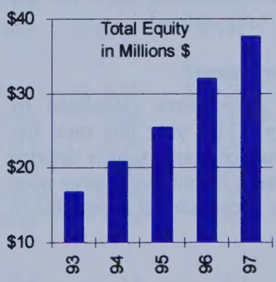
## Liquidity

***When did Buhler Industries Inc. become a public company?***

The Buhler group of companies amalgamated with Craftech Manufacturing Inc. on December 20, 1993. Craftech was a small furniture manufacturing company and was listed on the Toronto Stock Exchange. On March 25, 1994 the TSE approved the Buhler listing.

***Why do you continue to issue options thereby increasing the number of shares outstanding and diluting the value of public shares?***

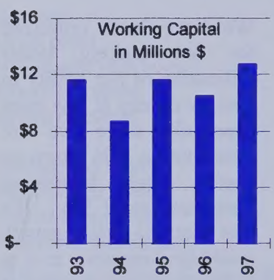
Options are generally offered to our employees, dealers and directors. Frequently these shares are sold into the market at a small profit making more shares available to the public and providing greater liquidity.




The initial public float in March of 1994 was only one million shares. Since that time we have issued a total of 6.8 million options, amounting to 28.2% of our total shares outstanding. The dilutive impact of options exercised to date has been $0.06 per share and $0.08 per share on basic and fully diluted earnings per share, while earnings have risen $0.20 and $0.18 respectively.

# Management Discussion & Financial Analysis

*in thousands of Canadian dollars (except per share amounts*




***Why is your working capital ratio decreasing?***

Our ratio is at 1.8:1, slightly lower than the desired level of 2:1, due to the fact that some capital acquisitions are financed out of working capital. The actual working capital has increased to $13 million and has allowed the Company to earn in excess or $.5 million dollars in supplier cash discounts in each of the previous 3 years.

## Diversification

***What percentage of your business is farm equipment?***

At present farm equipment represents approximately 76% of our sales and 80% of our net earnings.

***Why did you buy Dominion Lumber?***

Dominion Lumber had significant tax losses and we calculated that there would be some synergy with the furniture manufacturing division. In 1997, we sold the Dominion truss manufacturing division and the wholesale lumber division and are presently operating on a much reduced version of the original entity. The sale of the Pacific Ave. building allowed us to utilize some of the tax loss benefits.

***How did you get into the furniture manufacturing business?***

When we amalgamated with Craftech in 1994, we decided to continue with furniture manufacturing until the tax losses of over $1 million were fully utilized.

***How do you calculate inventory turns?***

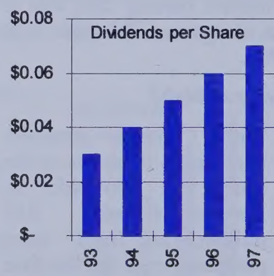
In previous years inventory turns were calculated by dividing revenue by inventory. This year this ratio has been corrected, whereby the cost of goods sold is divided by inventory. All previous years calculations have been adjusted. Three turns per year is considered acceptable in our industry.

***Why do you have two classes of shares?***

The two classes of equal ranking shares were set up in 1993 as part of the restructuring and amalgamation with Craftech Manufacturing Inc. On September 30, 1997, all Class B shares were converted to Class A shares. At the January 31, 1998 annual meeting, the shareholders will be asked to approve reclassification of Class A & B common shares leaving the Company with only one class of common shares.

## Dividends

***Do you plan to continue paying dividends and will they increase?***

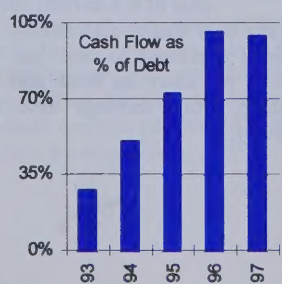


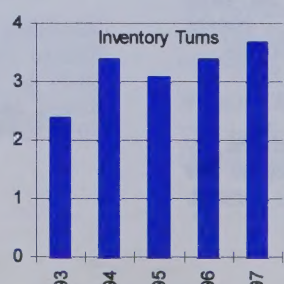

Yes. The Board of Directors has approved an increase in the annual dividend to $0.07 per share compared with $0.06 in 1996 and believe there is still some room for future increases. Dividends have been increased in each of the past 5 years.

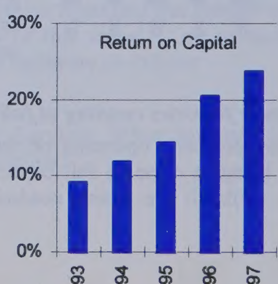
## Risks

A significant decline in grain prices could have a negative effect on farm equipment and related parts sales. Management considers fluctuations in grain prices to be part of conducting business in this industry and believes the risk of significantly depressed grain prices to be minimal in the near term.

The Company operates a U.S. subsidiary, Amarillo Service and Supply Inc. as an integrated foreign operation. In addition, the Company and certain of its subsidiaries sell directly to the U.S. market. Accordingly, the Company's exposure to fluctuations in the Canadian dollar relative to the US dollar will have some impact on earnings. Management views exposure to fluctuating exchange rates to be a normal part of conducting business and considers the degree of exposure to be minimal.



# Nine Year Financial Summary

*in thousands of Canadian dollars (except per share amounts)*

| Year ended September 30th | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | **1997** |
|---|---|---|---|---|---|---|---|---|---|
| **SUMMARY OF OPERATIONS** | | | | | | | | | |
| Revenue | $ 18,243 | $ 20,401 | $ 22,790 | $ 23,827 | $ 33,583 | $ 48,040 | $ 56,575 | $ 66,517 | **$ 85,375** |
| Cost of goods sold | 12,429 | 14,230 | 16,384 | 17,204 | 24,819 | 35,287 | 40,053 | 45,229 | **58,315** |
| Gross profit | 5,814 | 6,171 | 6,406 | 6,623 | 8,764 | 12,753 | 16,522 | 21,288 | **27,060** |
| Selling expenses | 1,887 | 1,885 | 2,252 | 2,140 | 2,254 | 3,287 | 3,638 | 4,496 | **5,438** |
| Administrative expenses | 1,421 | 1,487 | 1,737 | 1,801 | 2,521 | 3,191 | 3,821 | 4,585 | **5,309** |
| Income from operations | 2,506 | 2,799 | 2,417 | 2,682 | 3,989 | 6,275 | 9,063 | 12,207 | **16,313** |
| Interest expense | 913 | 1,402 | 1,193 | 778 | 518 | 518 | 1,063 | 679 | **457** |
| Amortization | 677 | 586 | 738 | 1,119 | 940 | 2,416 | 2,727 | 3,685 | **4,809** |
| Research & technical expenses | 405 | 388 | 110 | 220 | 305 | 726 | 470 | 498 | **645** |
| Net earnings before taxes | 1,250 | 1,102 | 1,504 | 1,269 | 1,735 | 2,734 | 4,803 | 7,345 | **10,402** |
| Income taxes | 0 | -17 | 259 | 91 | 593 | 493 | 1,100 | 2,212 | **4,271** |
| **Net earnings** | **1,250** | **1,119** | **1,245** | **1,178** | **1,142** | **2,421** | **3,703** | **5,133** | **6,131** |
| EBITDA | 2,840 | 3,090 | 3,435 | 3,167 | 3,193 | 5,668 | 8,593 | 11,709 | **15,668** |
| 5 year avg. net earnings after tax | 1,392 | 1,406 | 1,321 | 1,159 | 1,187 | 1,421 | 1,938 | 2,715 | **3,706** |
| **CASH FLOW SUMMARY** | | | | | | | | | |
| Capital asset purchases | $ 1,244 | $ 746 | $ 2,364 | $ 1,952 | $ 969 | $ 9,369 | $ 7,884 | $ 9,552 | **$ 12,253** |
| Long-term debt incurred | 832 | 265 | 1,439 | 0 | 0 | 0 | 2,587 | 0 | **1,201** |
| Reduction of long-term debt | 0 | 0 | 0 | 1,205 | 1,085 | 40 | 0 | 1,689 | **0** |
| Dividends | 250 | 100 | 0 | 176 | 10 | 623 | 832 | 1,097 | **1,432** |
| Net cash flow | 1,927 | 1,688 | 2,242 | 2,388 | 2,675 | 5,150 | 6,430 | 8,573 | **10,940** |
| Bank cash (indebtedness) | -4,606 | -3,692 | -5,766 | -3,774 | -1,646 | -3,713 | 365 | -1,576 | **-2,724** |
| Cash flow as % of debt | 24% | 22% | 25% | 25% | 28% | 51% | 73% | 101% | **99%** |
| **BALANCE SHEET SUMMARY** | | | | | | | | | |
| Accts receivable, cash & ppd. | 2,932 | 4,087 | 6,198 | 5,187 | 5,768 | 7,912 | 8,616 | 13,386 | **12,352** |
| Inventories | 11,372 | 9,835 | 12,757 | 11,250 | 10,383 | 10,418 | 12,792 | 13,188 | **16,586** |
| Total current assets | 14,304 | 13,922 | 18,955 | 16,437 | 16,151 | 18,330 | 21,408 | 26,574 | **28,938** |
| Total assets | 23,730 | 23,767 | 30,135 | 28,275 | 27,683 | 36,622 | 44,180 | 54,341 | **60,716** |
| Total current liabilities | 6,497 | 5,780 | 7,874 | 6,354 | 4,484 | 9,588 | 9,731 | 16,108 | **16,131** |
| Total liabilities | 12,916 | 12,484 | 16,067 | 13,408 | 11,036 | 15,920 | 18,863 | 22,530 | **23,219** |
| Total shareholder equity | 10,814 | 11,283 | 14,068 | 14,867 | 16,647 | 20,702 | 25,317 | 31,811 | **37,497** |
| Shares outstanding (millions) | 19.0 | 19.0 | 19.0 | 19.0 | 19.0 | 20.0 | 20.8 | 23.0 | **23.9** |
| Working capital | 7,807 | 8,142 | 11,081 | 10,083 | 11,667 | 8,742 | 11,677 | 10,466 | **12,807** |
| **DATA PER COMMON SHARE** | | | | | | | | | |
| EBITDA. | $ 0.15 | $ 0.16 | $ 0.18 | $ 0.17 | $ 0.17 | $ 0.29 | $ 0.41 | $ 0.48 | **$ 0.66** |
| Basic net earnings | 0.06 | 0.05 | 0.06 | 0.06 | 0.06 | 0.12 | 0.18 | 0.22 | **0.26** |
| Cash flow from operations | 0.10 | 0.09 | 0.12 | 0.13 | 0.14 | 0.26 | 0.31 | 0.38 | **0.46** |
| Dividends for year | 0.02 | 0.01 | 0.01 | 0 | 0.03 | 0.04 | 0.05 | 0.06 | **0.07** |
| Closing share price | Stock was listed on March 25/94 opening at: | | | | $1.00 | 1.40 | 1.45 | 1.66 | **2.39** |
| Shareholders' equity at year end | 0.57 | 0.59 | 0.74 | 0.78 | 0.86 | 1.04 | 1.22 | 1.38 | **1.57** |
| **STATISTICAL DATA** | | | | | | | | | |
| Working capital ratio | 2.2 | 2.4 | 2.4 | 2.6 | 3.5 | 2.1 | 2.2 | 1.7 | **1.8** |
| Total debt to equity | 1.2 | 1.1 | 1.1 | 0.9 | 0.6 | 0.8 | 0.7 | 0.7 | **0.6** |
| Long-term debt to equity | 0.6 | 0.6 | 0.6 | 0.5 | 0.4 | 0.3 | 0.3 | 0.2 | **0.2** |
| Gross margin (% of revenue) | 32% | 30% | 28% | 28% | 26% | 27% | 29% | 32% | **32%** |
| Selling expense (% of revenue) | 10% | 9% | 10% | 9% | 7% | 7% | 6% | 7% | **6%** |
| Administration (% of revenue) | 8% | 7% | 8% | 8% | 8% | 7% | 7% | 7% | **6%** |
| Net income (% of revenue) | 7% | 5% | 5% | 5% | 3% | 5% | 7% | 8% | **7%** |
| Return on capital | 11% | 13% | 13% | 9% | 10% | 11% | 18% | 19% | **24%** |
| Return on equity | 12% | 10% | 10% | 8% | 7% | 13% | 16% | 18% | **18%** |
| Inventory turnover | 1.1 | 1.4 | 1.3 | 1.5 | 2.4 | 3.4 | 3.1 | 3.4 | **3.5** |

# Management's Responsibility For The Financial Statements

The consolidated financial statements of Buhler Industries Inc. were prepared by management in accordance with accounting principles generally accepted in Canada applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Company, are described in note 1 to the financial statements. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control, which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee of the Board is responsible for reviewing the annual consolidated financial statements and reporting to the Board, making recommendations with respect to the appointment and remuneration of the Company's Auditors and reviewing the scope of the audit.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards and applicable laws and maintains proper standards of conduct for its activities.

John Buhler,
President

Larry D. Schroeder,
Vice President

# Auditors' Report

To The Shareholders of Buhler Industries Inc.

We have audited the consolidated balance sheets of Buhler Industries Inc. as at September 30, 1997 and 1996 and the consolidated statements of earnings and retained earnings and of changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

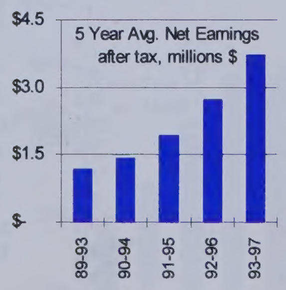
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

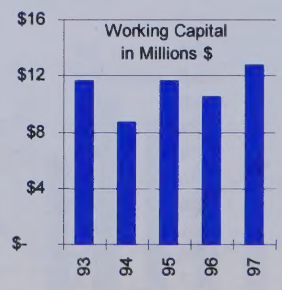
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1997 and 1996, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

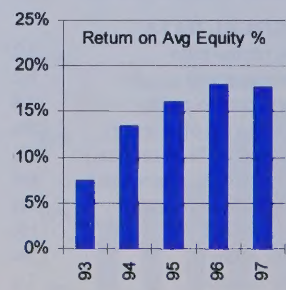
Deloitte & Touche

Winnipeg, Manitoba
November 14, 1997

Chartered Accountants

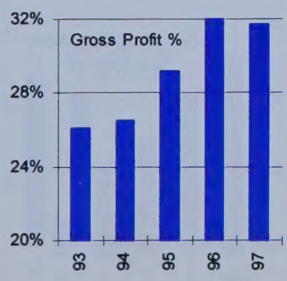


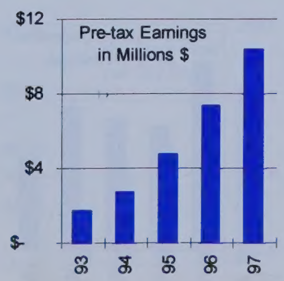



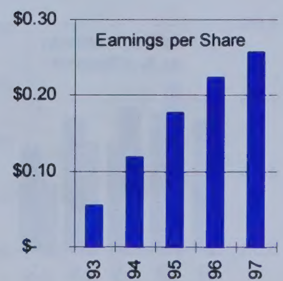



# Consolidated Statements of Earnings and Retained Earnings

| *For the years ended September 30 ($000's) except per share amounts* | | 1997 | % | | 1996 | % |
|---|---|---|---|---|---|---|
| **Revenue** | **$** | **85,375** | | $ | 66,517 | |
| **Cost of goods sold** | | **58,315** | | | 45,229 | |
| **Gross profit** | | **27,060** | **31.7%** | | 21,288 | 32.0% |
| Selling expenses | | **5,438** | **6.4%** | | 4,496 | 6.8% |
| Administration expenses | | **5,309** | **6.2%** | | 4,585 | 6.9% |
| **Income from operations** | | **16,313** | **19.1%** | | 12,207 | 18.3% |
| Interest expense | | **457** | | | 679 | |
| Amortization | | **4,809** | | | 3,685 | |
| Research and technical expenses | | **645** | | | 498 | |
| **Net earnings before taxes** | | **10,402** | **12.2%** | | 7,345 | 11.0% |
| Income taxes (note 7) | | **4,271** | | | 2,212 | |
| **Net earnings** | | **6,131** | **7.2%** | | 5,133 | 7.7% |
| **Retained earnings, beginning of year** | | **16,303** | | | 12,267 | |
| **Dividends** | | **(1,432)** | | | (1,097) | |
| **Retained earnings, end of year** | **$** | **21,002** | | $ | 16,303 | |
| **Earnings per share (Note 9)** | | | | | | |
| **Basic** | **$** | **0.26** | | $ | 0.22 | |
| **Fully diluted** | **$** | **0.24** | | $ | 0.22 | |



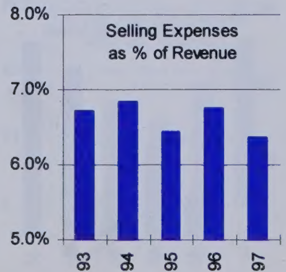
# Consolidated Balance Sheets

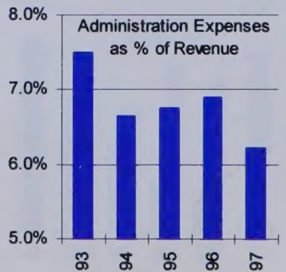
| *As of September 30 ($000's)* | | 1997 | | 1996 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Accounts receivable | $ | 12,071 | $ | 13,189 |
| Inventories (note 2) | | 16,586 | | 13,188 |
| Prepaid expenses | | 281 | | 197 |
| **Total Current Assets** | | 28,938 | | 26,574 |
| Capital assets (note 3) | | 31,303 | | 27,767 |
| Investments - at cost | | 475 | | - |
| **Total Assets** | $ | 60,716 | $ | 54,341 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current Liabilities** | | | | |
| Bank indebtedness (note 5) | $ | 2,724 | $ | 1,576 |
| Accounts payable and accrued liabilities | | 11,399 | | 12,060 |
| Current portion of long term debt | | 2,008 | | 2,472 |
| **Total Current Liabilities** | | 16,131 | | 16,108 |
| Advances from related party (note 4) | | 203 | | 1,340 |
| Long term debt (note 6) | | 6,311 | | 4,646 |
| Deferred income taxes | | 574 | | 436 |
| **Total Liabilities** | | 23,219 | | 22,530 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (note 8) | | 16,495 | | 15,508 |
| Retained earnings | | 21,002 | | 16,303 |
| **Total Shareholders' Equity** | | 37,497 | | 31,811 |
| **Total Liabilities and Shareholders' Equity** | $ | 60,716 | $ | 54,341 |

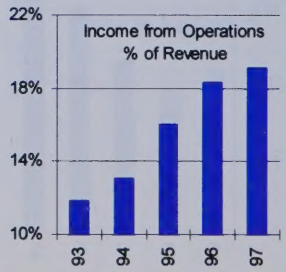
On behalf of the Board:

Director

Director



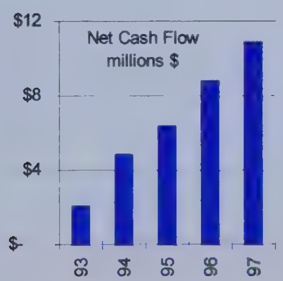



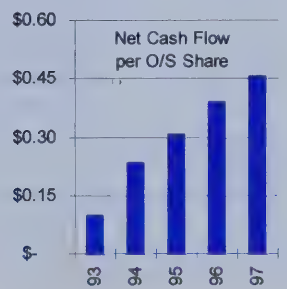



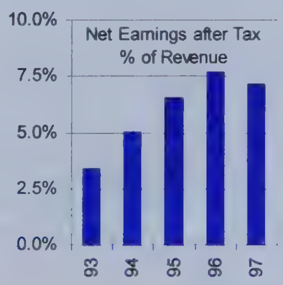
# Consolidated Statements of Changes in Financial Position

| *For the years ended September 30 ($000's)* | **1997** | 1996 |
|---|---|---|
| **Cash provided by (used in) operating activities** | | |
| Net earnings | **$ 6,131** | $ 5,133 |
| Add (deduct) non-cash items | | |
| Amortization | **4,809** | 3,685 |
| Gain on disposal of capital assets | **(162)** | - |
| Deferred income taxes | **138** | - |
| | **10,916** | 8,818 |
| Net change in non-cash working capital balances* | **(3,025)** | (1,489) |
| | **7,891** | 7,329 |
| **Investing activities** | | |
| Purchase of capital assets, net of investment tax credits | **(12,253)** | (9,552) |
| Proceeds on sale of capital assets | **4,070** | 872 |
| Investments | **(475)** | - |
| | **(8,658)** | (8,680) |
| **Financing Activities** | | |
| Issuance of share capital | **987** | 2,458 |
| Increase (decrease) in long term debt | **1,201** | (1,689) |
| Repayment of advances from related party | **(1,137)** | (262) |
| Dividends paid | **(1,432)** | (1,097) |
| | **(381)** | (590) |
| **Net cash used in the year** | **(1,148)** | (1,941) |
| **Bank indebtedness, beginning of year** | **(1,576)** | 365 |
| **Bank indebtedness, end of year** | **(2,724)** | (1,576) |

| | | |
|---|---|---|
| ***Net change in non-cash working capital balances is comprised of** | | |
| Accounts receivable | **1,118** | (5,040) |
| Inventories | **(3,398)** | (396) |
| Prepaid expenses | **(84)** | (95) |
| Accounts payable and accrued liabilities | **(661)** | 4,042 |
| **Net cash used** | **(3,025)** | (1,489) |



# Notes to the Consolidated Financial Statements

*For the years ended September 30 ($000's)*

## 1. Significant Accounting Policies

### (a) *Basis of Consolidation*

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and all of its subsidiaries, including a 50% joint venture interest in Bradley Steel Processors Inc. which is accounted for using proportionate consolidation.

### (b) *Inventories*

Inventories are stated at the lower of cost (first-in, first-out basis) and net realizable value. It is the Company's policy to record provisions for obsolete and slow moving inventory based on management estimates. These estimates are necessarily subject to a degree of measurement uncertainty.

### (c) *Capital Assets and Amortization*

Capital assets are recorded at cost less accumulated amortization and related investment tax credits. Amortization is provided over the estimated useful lives using the following rates and methods:

| | | |
|---|---|---|
| Buildings | 4 - 5% | straight line |
| Equipment | 20-30% | declining balance |
| Computers | 30% | declining balance |
| Software and tools | 100% | |

### (d) *Foreign Currency Translation*

The accounts of the United States subsidiary, which is considered an integrated foreign operation, have been translated into Canadian dollars on the following basis:

1) monetary assets and monetary liabilities at the year-end rates of exchange;
2) non-monetary assets and related amortization at rates prevailing at dates of transactions;
3) revenue and expense items, other than amortization, at the average rate for the year.

The resulting currency translation gains and losses are included in earnings.

### (e) *Financial Instruments*

*Foreign Exchange and Interest Rate Risk*

These are the risks to the Company's earnings that arise from fluctuations in interest rates and foreign exchange rates, and the degree of volatility of these rates. The Company does not use any derivative financial instruments to reduce its exposure to interest rate or foreign exchange rate risk.

*Credit Risk*

The Company is exposed to credit risk on its accounts receivable. The Company's exposure is limited by its large and diverse customer base.

*Fair Value*

For the Company's current financial assets and liabilities, which are subject to normal trade terms, the fair value approximates their carrying value. The Company's long term debt bears interest primarily at variable rates and as such, the fair value approximates carrying value.

## 2. Inventories

| | 1997 | 1996 |
|---|---|---|
| Finished goods | **$ 12,227** | $9,825 |
| Work in process | **1,195** | 1,050 |
| Raw materials | **3,164** | 2,313 |
| | **$ 16,586** | $ 13,188 |

## 3. Capital Assets

| | Cost | Accum. Amort. | 1997 Net Book Value | 1996 Net Book Value |
|---|---|---|---|---|
| Land | $ 3,376 | $ - | $ 3,376 | $ 3,329 |
| Buildings | 18,599 | 3,765 | 14,834 | 11,692 |
| Equipment | 23,564 | 11,034 | 12,530 | 12,071 |
| Computers | 1,337 | 785 | 552 | 675 |
| Software and tools | 453 | 442 | 11 | - |
| | **47,329** | **16,026** | **31,303** | 27,767 |

## 4. Advances from Related Party

The advances from Highland Park Financial Inc., a Corporation which owns approximately 65% of the voting shares of the Company and which is 100% owned by Mr. John Buhler, are non-interest bearing and have no specific terms of repayment.

The Company has provided a guarantee to Highland Park Financial Inc. on a $2,200 promissory note due from the Company's Deferred Profit Sharing Plan (see note 10).

## 5. Bank Indebtedness

Bank indebtedness is secured by a general security agreement and an assignment of accounts receivable and inventory and bears interest at prime.

## 6. Long Term Debt

| | 1997 | 1996 |
|---|---|---|
| Bank of Montreal term loan | **$ 8,300** | $ 4,800 |
| Term loan at US LIBOR | - | 1,635 |
| Metropolitan Trust | - | 655 |
| Western Diversification | **19** | 28 |
| Current portion | **2,008** | 2,472 |
| | **$ 6,311** | $ 4,646 |

The term loan with the Bank of Montreal is secured by a $5 million demand debenture, a floating charge of US $1.8 million on all fixed assets and an assignment of accounts receivable and inventories. Interest rates are based on various options including bank prime and bankers' acceptances plus an applicable stamping fee. Interest on long term debt amounted to $306 in 1997 (1996 - $407).

The next five years debt repayments are estimated as follows:

| | |
|---|---|
| 1998 | $2,008 |
| 1999 | 2,008 |
| 2000 | 1,903 |
| 2001 | 1,200 |
| 2002 | 1,200 |

# Notes to the Consolidated Financial Statements

*For the years ended September 30 ($000's) except per share amounts*

## 7. Income Taxes

| | 1997 | 1996 |
|---|---|---|
| Canadian corp. statutory rate | **45.0%** | 45.0% |
| Mfg. And processing profits | **( 6.0%)** | ( 6.0%) |
| Utilization of loss carry forwards | **( 8.3%)** | ( 6.7%) |
| Other | **10.4%** | ( 2.2%) |
| Effective tax rate | **41.1%** | 30.1% |

The Company has investment tax credits and operating loss carry forwards of $2,034 that are available to be applied against certain taxable income in future years. The potential tax benefits that may result from claiming these have not been recognized. The investment tax credits and operating loss carry forwards expire as follows:

| | |
|---|---|
| 2001 | 844 |
| 2002 | 524 |
| 2003 | 315 |
| 2004 and thereafter | 351 |

## 8. Capital Stock

Authorized unlimited number of Class A common shares. On September 30, 1997, all Class B shares were converted to Class A common.

Outstanding as of September 30:

| | Number of Shares | 1997 | 1996 |
|---|---|---|---|
| Class A | 24,121 (1996 - 7,035) | **$ 16,495** | $14,486 |
| Class B | Nil (1996 - 16,475) | - | 1,022 |
| | | **$16,495** | 15,508 |

During the year, 570 (1996 - 1,619) options were exercised for proceeds of $986 (1996 - $2,516). The Company granted an additional 1,650 (1996 - 1,297) options to employees and as part of acquiring an investment.

Options outstanding as of year end:

| Quantity (000's) | Exercise price | Expiry dates |
|---|---|---|
| 200 | $2.50 | Feb 6, 2000 |
| 1,450 | $2.20 | Jan 29, 2002 |

The Company has reserved for issuance 878 common shares in the event that these options are exercised.

## 9. Earnings Per Share

Basic earnings per share of $0.26 (1996 - $0.22) was calculated on the basis of the weighted average number of common shares outstanding for the year which amounted to 23,869 shares (1996 - 23,198).

The fully diluted net earnings per share calculation of $0.24 (1996 - $0.22) was prepared reflecting the dilutive effect of the exercise of the options outstanding as at September 30, 1997. The number of shares for the fully diluted earnings per share calculation was 25,519 (1996 - 23,808).

Interest on the funds which would have been received had the options been exercised was estimated at $95 (1996 - $36). Interest was imputed at a rate of 5.0% per annum (1996 - 6.0%) less allocable taxes.

## 10. Deferred Profit Sharing Plan

In 1995, the Company established a Deferred Profit Sharing Plan for its employees. The Company contributes funds to the plan annually as determined by the Board of Directors, subject to certain maximum limits established by the plan. Contributions are used to purchase common shares of the Company. In 1997, the Company contributed $135 to the plan (1996 - $125). In 1997, the plan trust acquired 500 shares of the Company bringing the total shares owned by the plan to 1,306.

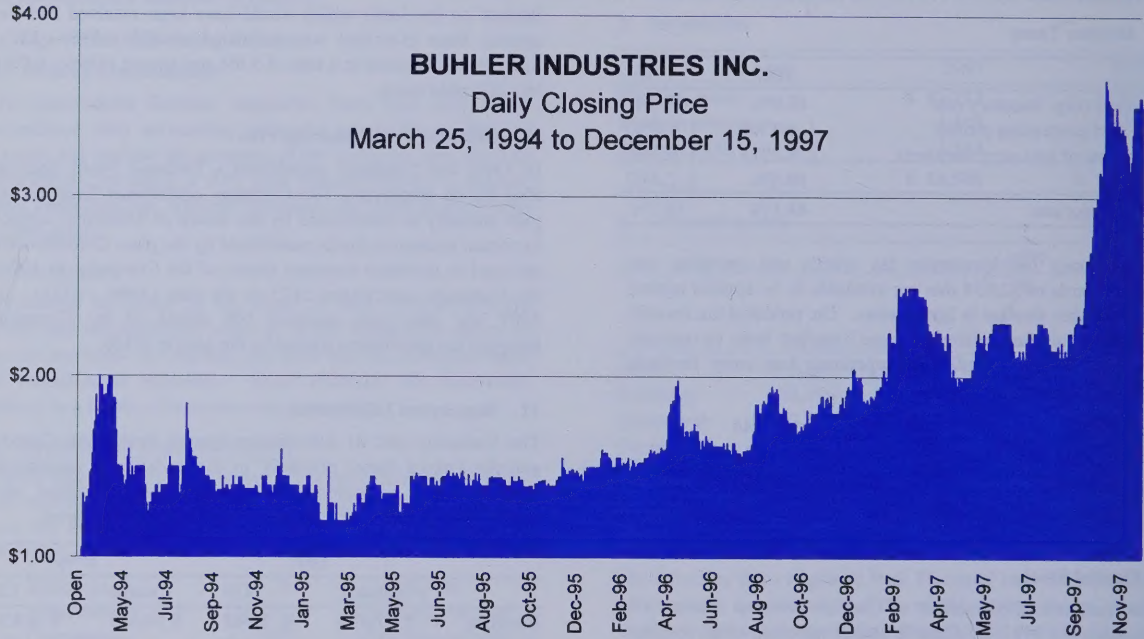
## 11. Segmented Information

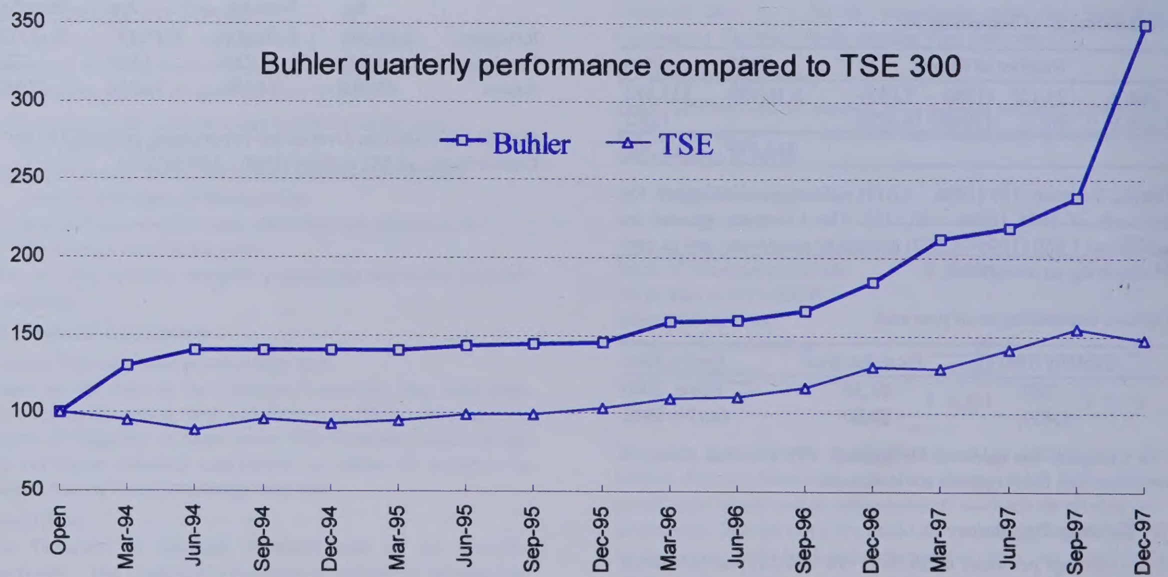
The Company and its subsidiaries operate throughout Canada and the United States primarily in the agricultural equipment industry. Non agricultural operations include: furniture and mirror manufacturing, lumber retail, and custom metalwork.

| | 1997 | | 1996 | |
|---|---|---|---|---|
| | Canada | US | Canada | US |
| Revenue | **$ 77,433** | **$ 7,942** | $ 59,681 | $ 6,836 |
| Earnings | **5,773** | **358** | 4,759 | 374 |
| Assets | **57,596** | **3,120** | 51,301 | 3,040 |
| | **Ag.** | **Non-Ag.** | Ag. | Non-Ag. |
| Revenue | **$ 65,356** | **$ 20,019** | $ 49,497 | $ 17,020 |
| Earnings | **4,903** | **1,228** | 4,907 | 226 |
| Assets | **45,968** | **14,748** | 36,354 | 17,987 |

Included in Canadian revenue are export sales, primarily to the United States, of $31 million (1996 - $24 million).

# Share Price & Volume Data




| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Closing price: | | | | | | | | | | | | | | | | |
| High | $1.50 | $2.10 | $1.85 | $1.60 | $1.50 | $1.47 | $1.48 | $1.55 | $1.65 | $1.98 | $1.95 | $2.05 | $2.54 | $2.39 | $2.40 | $3.70 |
| Low | 1.05 | 1.15 | 1.31 | 1.35 | 1.10 | 1.20 | 1.40 | 1.37 | 1.40 | 1.56 | 1.56 | 1.70 | 1.80 | 1.93 | 2.05 | 2.45 |
| Close | 1.30 | 1.40 | 1.40 | 1.40 | 1.40 | 1.44 | 1.45 | 1.46 | 1.59 | 1.60 | 1.66 | 1.85 | 2.12 | 2.20 | 2.39 | 3.50 |
| Volume *(000'S)* | 115 | 881 | 315 | 148 | 181 | 225 | 313 | 287 | 668 | 633 | 339 | 262 | 616 | 975 | 1,162 | 1,091 |
| TSE | 4300 | 4028 | 4354 | 4214 | 4314 | 4527 | 4530 | 4714 | 4971 | 5044 | 5291 | 5927 | 5850 | 6438 | 7040 | 6641 |

On March 25, 1994 the TSE closed at 4540 and Buhler opened at $1.00 - Volume is in thousands - December results are up to Dec. 15, 1997.
Buhler index does not include the assumption that dividends have been reinvested.

Standing: - Ross Giles, Director - Edward Kennedy, Director -
Patrick Cooney, Director - Allan L.V. Stewart, Director -
Seated: Sherman Kreiner, Director - Robert Chipman, Director -
John Buhler, Chairman and Managing Director

Audit Committee: - Ross Giles, Chairman - Robert Chipman -
Sherman Kreiner

Corporate Banker: Bank of Montreal
Winnipeg, Manitoba

Legal Counsel: Perlov Stewart Lincoln
Winnipeg, Manitoba

Transfer/Agent: The Montreal Trust Company of Canada
Winnipeg, Manitoba

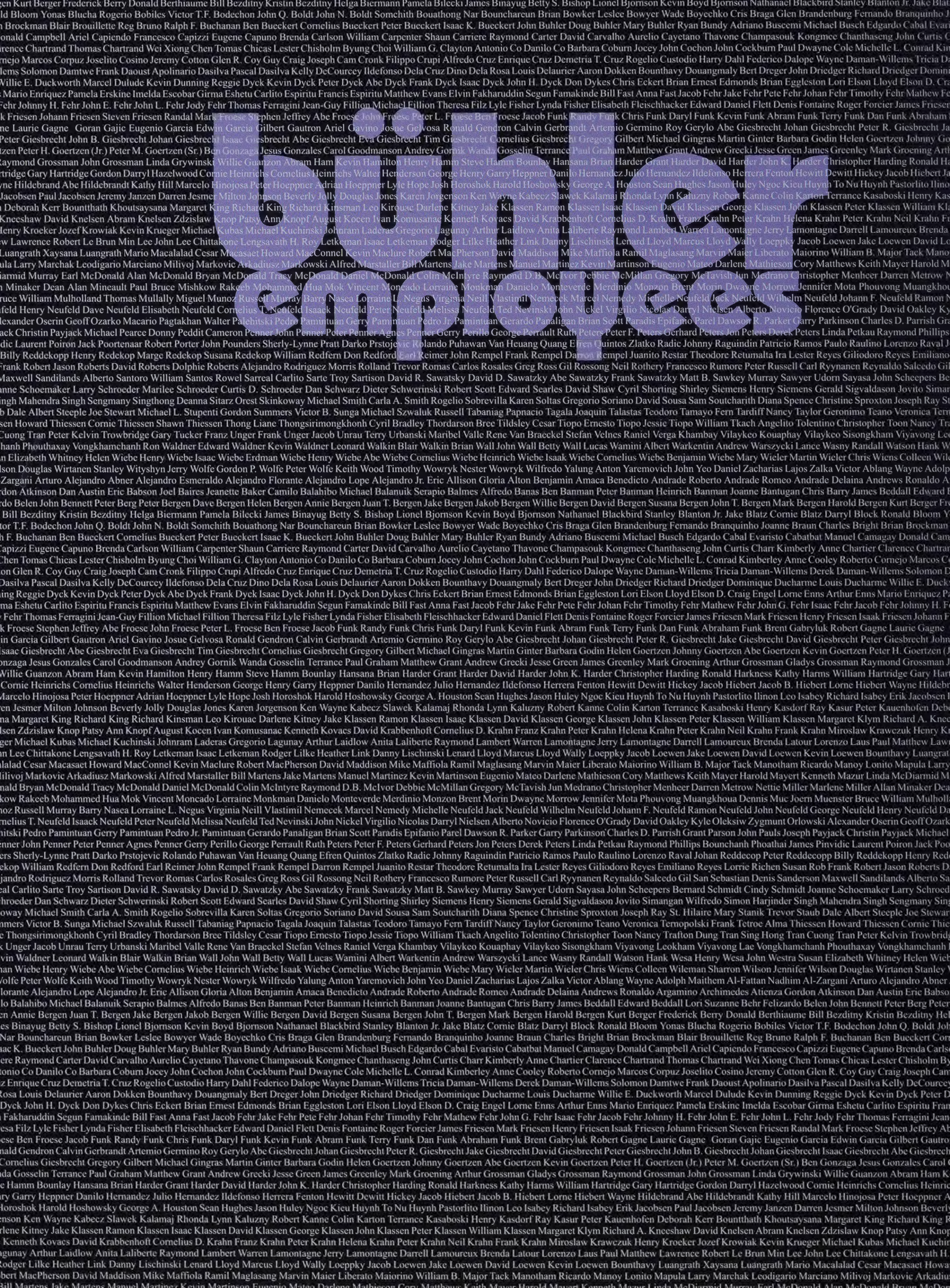
Auditors: Deloitte & Touche
Winnipeg, Manitoba

Exchange Listing: The common shares of Buhler Industries Inc. are listed on the Toronto Stock Exchange and trading under the symbol "BUI.A"

The Annual Meeting of the shareholders of Buhler Industries Inc. will be held on Saturday, January 31, 1998, at 11:00 a.m., at the Convention Centre, Winnipeg, Manitoba.

Dividends: The Board of Directors has increased the annual dividend by 16% to $0.07 per share compared with $0.06 in 1996.

Corporate Office: 1201 Regent Avenue West, Winnipeg, MB R2C 3B2
Telephone (204) 661-8711 Fax: (204) 654-2503
Website: www.buhler.com


bühler employees